Suggested Solution
O-Level 2021
Principles of Accounts
Paper 1

Q1

(a) On 1 July 2019, Xu's business took a bank loan of $40 000. [1]
On 30 June 2020, Xu's business repaid $8 000 of the bank loan by cheque. [1]

(b) On 1 January 2020, Xu's business reversed the entry of interest expense incurred in the year ended 31 Dec 2019 but not paid. [1]
On 30 June 2020, Xu's business paid $2 400 interest by cheque. [1]

(c) Extract of Statement of Financial Performance for the year ended 31 December 2020

Less: Expenses	$
Interest expense	2160 [1]

(d) Extract of Statement of Financial Position as at 31 December 2020

Non-current liabilities	$	$
Long term borrowing		24 000 [1]
Current liabilities		
Current portion of long term borrowing	8 000 [1]	
Interest payable	960 [1]	8 960

(e) One difference between loan and overdraft:
- ❖ The amount borrowed is fixed in a bank loan but the amount borrowed for an overdraft is not fixed but it must not exceed the limit agreed with the bank.
- ❖ Cash is transferred to the business for a bank loan but no cash is transferred to the business for an overdraft. Instead, the overdraft is due to the business withdrawing more than its bank balance.
- ❖ Bank loan usually requires regular fixed cash repayment but bank overdraft does not involve cash repayment. Any deposit into the bank account reduces the overdraft.
- ❖ Bank loan is presented as long term borrowing under non-current liabilities but bank overdraft is recorded as a current liability. [2]

(f) Accrual basis of accounting [1]
Interest expense should be recognised in the financial period incurred whether or not it has been paid. [1]

[Total: 12]

Q2
(a)
Assets are resources a business owns or controls that are expected to generate future benefits. [1]
Liabilities are obligations owed by a business to others that are expected to be settled in the future. [1]
Income is the earnings from selling goods or providing services. [1]
Expense are costs incurred to earn income in the same accounting period. [1]

(b) Assets = Liabilities + Equity [1]
= 7 800 + 1 200 + 10 000 + 50 000 + 80 000
= 149 000 [1]
Net book value of non-current assets = 149 000 – 13 500 – 12 000
= $123 500 [1]

(c) The consistency theory states that an accounting method once chosen, should be applied to future accounting periods [1] to enable meaningful comparison of the financial performance of the business. [1]

[Total: 9]

Q3
(a)

	Debit $	Credit $	
Equipment	900		[1]
Trade payable Bernardo		900	[1]

(b)

Effect of error on Profit	Overstated $	Understated $	No effect
Error 2	60 [1]		
Error 3			✓ [1]
Error 4		75 [1]	

(c) The accounting entity theory states that the activities of a business are separate from the actions of the owner. [1] All transactions are recorded from the point of view of the business. [1]

[Total: 7]

Q4
(a)

	30 Sep 2020	30 Sep 2021
Workings	Average net TR = (17 200 + 25 500)/2 = 21 350 TR collection period = Average net TR / Net sales revenue x 365 days = 21 350 / 278 500 x 365 = 27.98 days [1]	Average net TR = (25 500 + 34 000)/2 = 29 750 TR collection period = Average net TR / Net sales revenue x 365 days = 29 750 / 299 250 x 365 = 36.29 days [1]
Trade receivables collection period (days)	**27.98 days [1]**	**36.29 days [1]**

(b) The trade receivables collection period has worsened [1] from 27.98 days to 36.29 days over the two years. This means that Ping's business was taking a longer time [1] to collect payment from its credit customers in 2021 compared to the earlier year. This also means that Ping's business has become less efficient [1] in managing its trade receivables over the two years.

(c) Two ways to improve TR collection period:

- Ensure credit is granted to customers who are financially able
- Offer cash discounts to encourage credit customers to pay early
- Send regular reminders to credit customers who delay payment or refuse to pay
- Engage professional debt recovery agencies to collect payment from financially distressed credit customers [2]

(d) Two sources of non-accounting information to grant credit to customer:
- Customer's repayment history
- Number of days the debts are overdue
- Trade receivables balance
- Customer reputation
- Outlook of the industry the customer is in
- Economic outlook [2]

(e) Prudence theory [1]

[Total: 12]

Suggested Solution
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Paper 2

1(a)

Jordan
Statement of Financial Performance for the year ended 31 December 2020

		$	$
Advertising fee revenue (186 750 – 12 700)	**[1]**		174 050
Other income			
Commission income	**[1]**		1 300
Less: Other Expenses			
Rent expense (22 500 – 750)	**[1]**	21 750	
Wages and salaries		38 500	
General expenses (12 350 – 950)	**[1]**	11 400	
Printing expenses (23 460 + 1 800)	**[1]**	25 260	
Depreciation on office equipment (10% X 85 000)	**[1]**	8 500	
Depreciation on motor vehicles [25% X (40 000 – 10 000)]	**[1]**	7 500	
Impairment loss on trade receivables [(2%x23 250) – 195]	**[1]**	270	
Interest on loan (4% x 15 000)	**[1]**	600	113 780
Profit for the year	**[1OF]**		61 570

[10]

1(b)

Jordan
Statement of Financial Position as at 31 December 2020

Assets	$	$	$
Non-current assets	Cost	Accumulated Depreciation	Net book value
Office equipment (17 000 + 8 500)	85 000	25 500	**[1]** 59 500
Motor vehicle (10 000 + 7 500)	40 000	17 500	**[1]** 22 500
			82 000
Current assets			
Trade receivables	23 250		
Less: Allowance for impairment of trade receivables	465	**[1]** 22 785	
Cash at bank		**[1]** 5 670	
Prepaid rent expense		**[1]** 750	29 205
Total assets			111 205
Equity and Liabilities			
Owner's Equity			
Capital (27 685 + 61 570 – 19 500 – 950)		**[1OF]**	68 805
Non-current liabilities			
Long-term borrowings	**[1]**		15 000
Current liabilities			
Trade payables		12 300	
Printing expenses payable	**[1]**	1 800	
Advertising fee revenue received in advance	**[1]**	12 700	
Interest on loan payable	**[1]**	600	27 400
Total equity and liabilities			111 205

[10]

Q2
(a)

Journal

Date			Debit	Credit
2021			$	$
Mar 3	Trade receivable Joel (3 000 x 95%)	**[1]**	2 850	
	Sales revenue	**[1]**		2 850
	Cost of sales	**[1]**	2 100	
	Inventory	**[1]**		2 100
14	Discount allowed (2% x 2 850)	**[1]**	57	
	Cash at bank (98% x 2 850)	**[1]**	2 793	
	Trade receivable Joel	**[2]**		2 850

(b) To encourage customers to buy in bulk **[1]**
(c) To encourage credit customers to pay promptly, by a specified date **[1]**

(d) Two roles of accountants:

- Through providing accounting information for stakeholders' decision-making, accountants act as **stewards** of businesses. Accountants do not own the business but are given the responsibility to manage the business.
- Accountants set up the **accounting information system** to collate, record, organise and report accounting information so that owners and other stakeholders can make decisions regarding the management of resources and the performance of businesses.
- They think critically, **solve problems**, adapt and meet the need for sophisticated accounting and business information.
- In the face of an evolving business environment and rapid technological advancement, accountants have to provide relevant information in a timely manner for decision-making and insights that are easily and appropriately understood by owners and other stakeholders based on **accounting theories**. [2]

[Total: 12]

Q3

(a)

	Tasty Cakes	Fancy Gateaux
(i) Gross profit margin = GP/NSR x 100%	(68 000 – 44 000) / 68 000 x 100% = **35.29% [1]**	(92 000 – 53 000) / 92 000 x 100% = **42.39% [1]**
(ii) Profit margin = Profit/NSR x 100%	(68 000 – 44 000 – 9 500) / 68 000 x 100% = **21.32% [1]**	(92 000 – 53 000 – 22 400) / 92 000 x 100% = **18.04% [1]**

(b)

- The gross profit margin of Fancy Gateaux (FG) 42.39% is **better** than Tasty Cakes' (TC) 35.29%. **[1]**
- This could be due to FG selling its products at a higher price or sourcing its goods at a lower cost. **[1]**
- However, the profit margin of FG 18.04% is **worse** than TC's 21.32%. **[1]**
- This shows that FG is better at trading goods but **less efficient in managing its expenses**. **[1]**
- This is evident from FG's **expenses at $22 400, significantly higher** than TC's $9 500. **[1]**
- Overall, FG is less profitable than TC. **[1]**

(c)

- Zander should invest in Tasty Cakes (TC).
- TC is **more profitable** and its return on equity at 20.52% is **better** than Fancy Gateaux's 15.34%. **[1]**
- This means that Tasty Cakes is able to **generate higher profit for every dollar of capital invested** into the business. **[1]**

(d) Importance of profitability: [Any two]

- To have sufficient funds to cover the operating expenses.
- To remain in business and stay competitive.
- To distribute profits to owners and shareholders, and to attract investors.
- To reward its employees and have them continue working for the business. **[2]**

[Total: 14]

Q4

(a) On 31 March 2021,

- Khalid's business **bought motor vehicles** costing $15 000 **on credit from Naomi**. [1]
- Khalid contributed $9 000 worth of motor vehicles from his personal funds. [1]
- Khalid's business sold motor vehicles that was previously bought for $20 000. [1]

(b) Capital expenditure are **costs of purchasing** the non-current asset (NCA) [1], costs to **bring the NCA to its intended use**, and costs to **enhance** the NCA. [1]

Revenue expenditure are **costs to operate** the NCA [1], and costs to **repair and maintain** the NCA in **working condition**. [1]

(c) Decision + 3 reasons:

Decision:	Khalid should buy Machine Alpha. [1]
Basic statement & development:	Machine Alpha has a bigger capacity of packing 10 000 units per week as compared to Machine Omega's 9 000 units per week. [1] A higher machine capacity to pack goods would serve Khalid's business needs better in times of high sales volume. [1]
Basic statement & development:	Machine Alpha requires less manpower of one full-time supervisor but Machine Omega requires two full-time supervisors. [1] Less manpower needed to operate Machine Alpha means more cost savings in terms of salaries or the staff can be given other tasks which in turn results in improvement in business efficiency. [1]
Basic statement & development:	Machine Alpha provides a longer warranty period of 5 years in comparison to Machine Omega's 3 years. [1] A longer warranty period provides assurance on the after-sale support in case of spoilage and saving possible repair costs. [1]

OR

Decision:	Khalid should buy Machine Omega. [1]
Basic statement & development:	The cost of Machine Omega $52 000 is cheaper than Machine Alpha $60 000. [1] The lower cost of Machine Omega would enable Khalid to enjoy more cost savings and have spare cash for other business needs. [1]
Basic statement & development:	The annual service cost of Machine Omega of $500 is lower than Machine Alpha's $750. [1] Lower service expenses incurred for Machine Omega would result in higher profit for the year. [1]
Basic statement & development:	Machine Omega does not require staff training to operate but Machine Alpha requires every operator to be trained for a week. [1] This implies that Machine Omega is more user-friendly and easier to use. The manpower hours saved from training can be used to improve business efficiency. [1]
Basic statement & development:	Machine Omega can be delivered immediately while Machine Alpha can only be delivered in 3 months' time. [1] The availability of Machine Omega enables Khalid's business to use it sooner to pack its goods, meeting immediate business needs. [1]
Basic statement & development:	Machine Omega received positive feedback from 80% of its customers but Machine Alpha is a new machine with no customer review. [1] The positive reviews of Machine Omega provides some assurance on its quality. [1]

[Total: 14]